

Canadian Materials Sector Is A Laggard

eResearch Corporation is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards shows that the Canadian Materials sector has lagged the U.S. Materials sector, for very good reasons.

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Wednesday, January 3, 2018

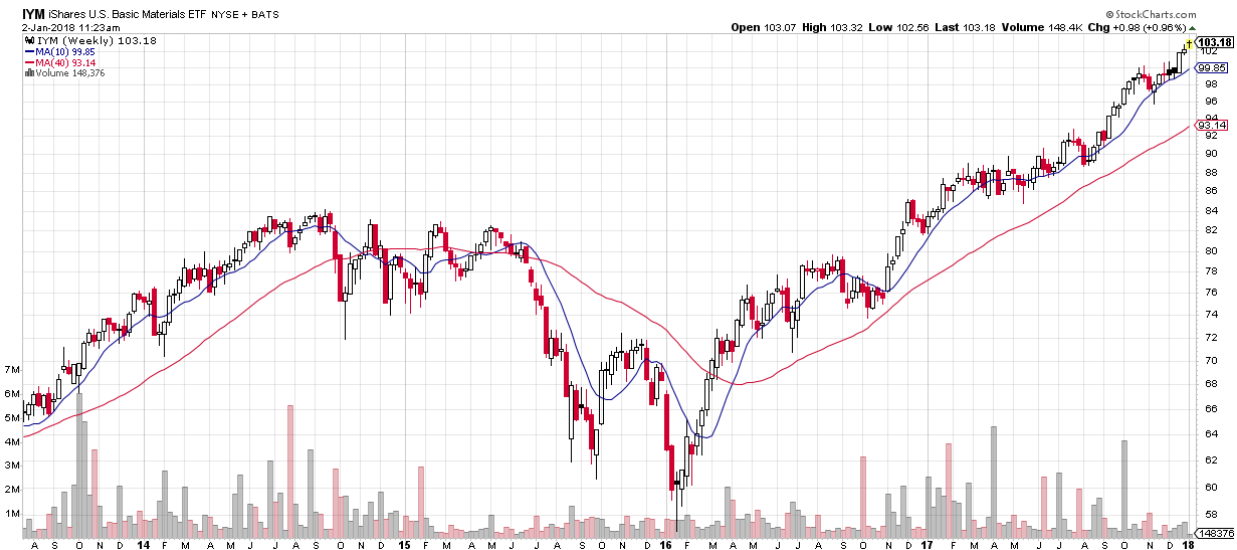
Materials Sector Less Bullish For Canadian Investors

By: Keith Richards (bio at end)

The global materials stocks have, on average, been ripping since 2016. You can see the sharp, tight uptrend on this chart of the iShares Global Materials ETF (MXI-US).



Led by the big U.S. firms, the U.S. materials sector, via the iShares U.S. Materials ETF (IYM-US) has a similar look to the chart. Tight and to the right!



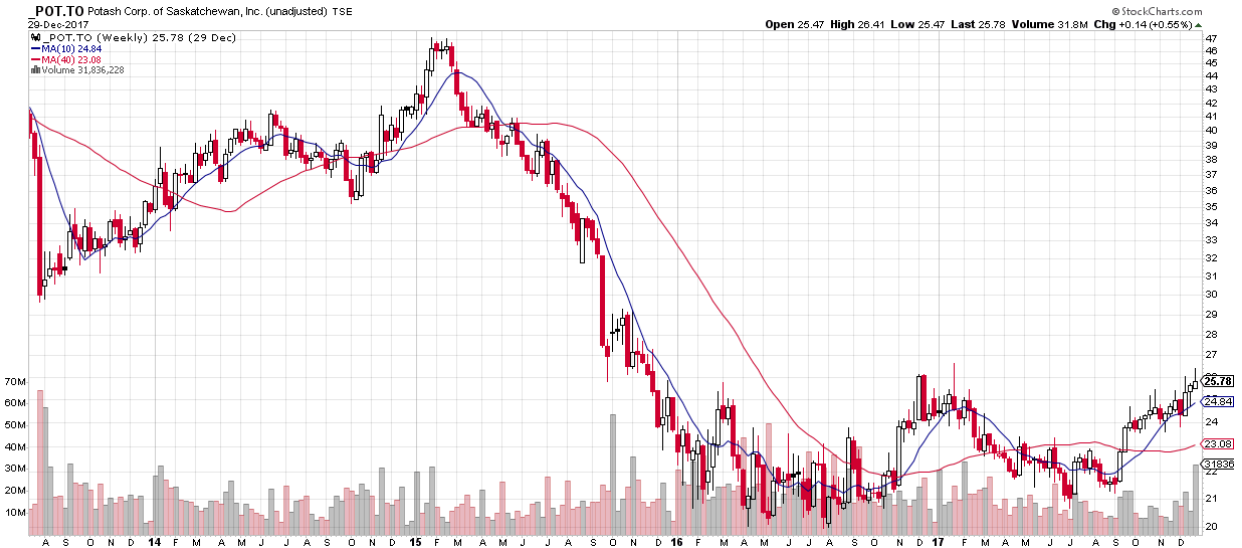
The picture changes dramatically for the Canadian materials sector. Take a look at the iShares Canadian materials ETF (XMA-T). This sector ETF has been moving sideways while the broader global materials sector has been on fire. Yes, it may be moving within a triangle pattern that shows some signs of breaking out, but that triangle break must last a little longer to be considered bullish. I am wondering if this break-out is sustainable.



That is because the Canadian materials sector has a 45% influence via gold stocks (!!), followed by 16% in fertilizers and related agriculture materials stocks. Compare that massive weighting in two industries to the much more “true-to-form” global ETF. It is holding less than 3% in gold. The global ETF is mostly weighted in chemicals and industrial mining. Further, the individual stock weightings are diversified better than the Canadian index. Dow DuPont is the biggest weighting in the global ETF at just under 8%, with the majority of holdings in the 2% or less range per stock.

The Canadian counterpart has over 8% in Potash, along with more than 7% each in Agrium, Barrick, and Franco Nevada. The charts for those stocks (not shown) are suggesting a downtrend for Barrick, a base for Potash, and some serious near-term resistance points for Agrium and Franco Nevada. In other words, its largest stock holdings are kind of mediocre chart patterns.

POTASH CORP.



If you are going to buy an index ETF like the iShares Canadian materials ETF, hope for a rising gold market. With gold facing serious resistance at \$1350 (currently \$1315), there is a case for only short-term upside in that sector. See the next chart on the following page.

A strong move in Potash would help, too – but that stock (POT-T) needs to break \$26 before we get excited.

BW: Potash Corp. and Agrium have combined to form a new company, Nutrient Inc.

GOLD



All in, the Canadian materials ETF is currently uninspiring from my perspective. It might move a bit higher if as when gold hits its old mid-\$1300's area of resistance, but I don't think the prospects for its holdings will allow for sustained upside past that point.

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ABOUT THE AUTHOR



ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over \$100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **“one of [our] most accurate technical analysts.”** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page www.valuetrend.ca/blog/. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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